

Message Text

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PASS EXIMBANK FOR ALBRIGHT

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SUBJ: EXIM LOANS

REF: BELGRADE 1358

1. FRANK SHARRY, FOREIGN FINANCIAL DIRECTOR OF UNITED STATES STEEL CORPORATION, CAME TO YUGOSLAVIA THIS WEEK TO DISCUSS RMK ZENICA'S REFINANCING PROBLEMS REPORTED IN REFTEL. HE PROVIDED THE FOLLOWING ADDITIONAL DETAILS ON THE SITUATION TO EMBOFFS.

A. THE PROJECT INVOLVED IS AN EXPANSION OF EXISTING WIRE MILL FACILITIES TO INCLUDE FACILITIES FOR PRODUCTION OF LOW CARBON WIRE, HIGH CARBON WIRE, AND STEEL ROPE. IT WAS ORIGINALLY SCHEDULED FOR COMPLETION IN JUNE 1978, BUT THE ESTIMATED COMPLETION DATE NOW IS JULY 1979.

B. TO BUILD THE PLANT, RMK ZENICA OBTAINED FIVE FOREIGN LOANS TOTALING 41 MILLION DOLLARS. DOMESTIC FINANCING TOTALS AN ADDITIONAL 22.9 MILLION DOLLARS. ALL FIVE OF THE FOREIGN LOANS HAVE PAYMENTS DUE IN 1978 AND 1979 AND ZENICA WISHES TO DEFER ALL OF THESE PAYMENTS EITHER BY EXTENDING THE REPAYMENT PERIOD FOR ONE AND ONE-HALF YEARS OR INCREASING PAYMENTS DURING THE REMAINDER OF THE REPAYMENT PERIOD. THIS WOULD ALLOW THE NEW
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FACILITY TO HAVE AROUND ONE-HALF YEAR OF OPERATIONS PRIOR TO ANY PRINCIPAL REPAYMENTS.

C. EXIM IS INVOLVED IN ONLY ONE OF THE LOANS. THIS IS A 24.8 MILLION DOLLAR LOAN WITH 9.3 MILLION DOLLARS IN DIRECT EXIM PARTICIPATION AND THE REMAINING 15.5 MILLION DOLLARS COVERED BY AN EXIM GUARANTEE. WHILE THE FIRST EXIM DIRECT REPAYMENT IS NOT DUE UNTIL 1984, A RESCHEDULING OF THE LOAN BY ONE AND ONE-HALF

YEARS WOULD PRESUMABLY PUSH THE EXIM REPAYMENT DATES BACK AS WELL.
 RMK WILL PROPOSE THAT THE 1,240,000 DOLLAR PAYMENTS DUE ON JULY
 10, 1978; JAN 10, 1978; AND JULY 10, 1979, BE POSTPONED UNTIL
 JAN 10, 1980; JULY 10, 1980; AND JAN 10, 1981, RESPECTIVELY.

D. THE LENDERS, AMOUNT TO BE RESCHEDULED, AND LOAN AMOUNTS
 ARE AS FOLLOWS (IN U.S. DOLLARS).

LOAN NO.	LENDERS	LOAN AMOUNT	TO BE RESCHEDULED
1.	MOSCOW NARODNY BANK	4,000,000	1,000,000
2.	EUROBANK	4,000,000	1,000,000
3.	SOCIETE GENERALE	1,500,000	552,500
4.	EXIM DIRECT AND GUARAN- TEED LOAN	24,800,000	3,720,000
INCL: EXIM DIRECT 9,300,000			
BANK OF AMERICA 5,500,000			
STATE BANK STREET BANK AND TRUST COMPANY 2,130,000			
MORGAN GUARANTY TRUST 1,870,000			
THE CHASE MANHATTAN BANK 1,500,000			
PITTSBURGH NATIONAL BANK 1,500,000			
MELLON BANK N.D. 1,000,000			
NATIONAL BANK OF DETROIT 1,000,000			
FIRST CHICAGO INTER- NATIONAL BANKING CORP. 1,000,000			
5.	SECOND BANK OF AMERICA SYNDICATED LOAN	6,700,000	2,512,000

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INCL: BANK OF AMERICA 2,285,000
 MORGAN GUARANTY TRUST
 COMPANY 1,083,000
 THE CHASE MANHATTAN BANK
 N.A. 583,000
 PITTSBURGH NATIONAL BANK 583,000
 MELLON BANK N.A. 583,000
 FIRST CHICAGO INTERNA-
 TIONAL BANKING CORP. 500,000
 WORCESTER COUNTY NATIONAL
 BANK 500,000

ALL OF THE ABOVE LOANS HAVE THE GUARANTEE OF PRIVREDNA BANKA
 SARAJEVO, WHICH IS ALSO AWARE OF THE RESCHEDULING EFFORTS.

2. RMK ZENICA IS NOW REWRITING ITS PROPOSAL FOR THE RESCHEDULING
 IN ACCORDANCE WITH SHARRY'S ADVICE. HE EXPECTS TO RECEIVE THIS
 MATERIAL IN ABOUT TWO WEEKS TIME. HE THEN PLANS TO HAND-DELIVER
 IT TO EXIM AND THE U.S. COMMERCIAL BANKS. HE WILL ALSO VISIT
 SAM FROMOWITZ IN EUR/EE TO BRIEF HIM. RMK ZENICA WILL NOT SEND
 A DELEGATION TO THE U.S. AS PLANNED UNLESS SHARRY DETERMINES IT
 IS ADVISABLE.

3. SHARRY STATED THAT THE DELAYS WERE CAUSED BY MUTUAL PROBLEMS AND WERE NOT EXCLUSIVELY THE FAULT OF THE YUGOSLAV SIDE. HE ALSO ADDED THAT THE PRESENT DUE DATES FOR THE LOANS WERE VERY HARD ON ZENICA IN ANY CASE, BECAUSE THEY NEVER PROVIDED ANY START-UP TIME FOR THE PLANT TO BEGIN OPERATIONS. INSTEAD, THE FIRST INSTALLMENTS WERE DUE IMMEDIATELY ON THE SCHEDULED OPENING OF THE PLANT.

4. COMMENT: RMK ZENICA IS ONE OF THE LARGEST ENTERPRISES IN YUGOSLAVIA WITH OVER A BILLION DOLLARS IN ANNUAL REVENUE. IN 1976, HOWEVER, IT DROPPED FROM THE SECOND LARGEST MANUFACTURING ORGANIZATION IN YUGOSLAVIA TO THE FIFTH AND REVENUES DROPPED FROM 1.177 BILLION DOLLARS TO 1.165 BILLION. ALTHOUGH THERE LIMITED OFFICIAL USE

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ARE NO FIGURES FOR 1977 YET, IT APPEARS ALMOST CERTAIN THAT RMK ZENICA SUFFERED LOSSES OF AN UNKNOWN SIZE. THE PRESS HAS HAD SEVERAL ARTICLES DESCRIBING THE LOSSES OF THE FERROUS METALLURGY INDUSTRY AND EARLIER REPORTS DURING THE YEAR DETAILED MID-YEAR LOSSES AND ON-GOING PROBLEMS IN THE ENTERPRISE ITSELF. THESE INCLUDE PRODUCTION AT FAR LESS THAN CAPACITY IN NEW ROLLING MILLS DUE TO DELAYS IN COMPLETION OF A BLAST FURNACE AND COKING BATTERY AND GENERALLY LOW STEEL PRICES WITHIN YUGOSLAVIA--DESPITE INCREASING COSTS OF IMPORTED RAW MATERIALS AND CAPITAL EQUIPMENT. SHARRY CONFIRMED THAT THE BALANCE SHEET FOR THE WHOLE COMPANY DOES NOT LOOK GOOD. WE SUSPECT THAT THIS WIRE MILL LOAN IS ONLY A PART OF THE CURRENT FINANCIAL PROBLEMS OF ZENICA.

5. REAL AS RMK ZENICA'S PROBLEMS MAY BE, HOWEVER, WE BELIEVE THE LOANS FOR THE WIRE MILL PROJECT REMAIN SOUND, AS THEY HAVE THE GUARANTEE OF PRIVREDNA BANKA SARAJEVO. FURTHERMORE, THIS WOULD APPEAR TO BE A SPECIAL CIRCUMSTANCE AND THE YUGOSLAV POLICY THAT FOREIGN LOANS WILL NOT GO INTO DEFAULT REMAINS AS STRONG AS EVER.
WORTZEL

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